

Cost Principles for Accountable Entity Operations

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Table of Contents

Purpose	3
Scope	3
Authorities	4
Key Definitions	5
Policies	6
Responsibilities	24

The *Cost Principles for Government Affiliates* replaces the *Cost Principles for Accountable Entity Operations* which remains in effect until June 30, 2019 or as otherwise directed by MCC. The [Cost Principles for Accountable Government Affiliates can be found here](#).

1. Purpose

This policy (“Policy”) sets forth the principles that govern whether an MCC Grant may fund an expense incurred in furtherance of a Program by a Government Affiliate serving as an Accountable Entity, an Implementing Entity, a Fiscal Agent or a Procurement Agent. This Policy also applies to a Government Affiliate’s use of alternative, non-MCC funding in furtherance of an MCC Grant, including Recipient Country and third-party funding, except as otherwise agreed in writing by MCC.

These cost principles are also intended for use in: (1) preparation of budget estimates by a Recipient Country, (2) negotiation of budgets between a Recipient Country and MCC, and (3) audits. A Government Affiliate should prepare its cost estimates and account for expenditures consistent with the cost principles contained in this Policy.

These cost principles do not govern costs related to cost-reimbursement contracts with commercial organizations. Such contracts are subject to *Cost Principles for Cost-Reimbursement Contracts under MCC Financed Grants* published on the MCC Website (www.mcc.gov).

2. Scope

2.1. Application

2.1.1. The application of these cost principles is based on the fundamental premises that:

- a. Government Affiliates are responsible for the efficient and effective administration of MCC Grant funds through the application of reasonable management practices.
- b. Government Affiliates assume responsibility for administering MCC Grant funds in a manner consistent with the terms and conditions of the MCC Grant Agreement.
- c. Each Government Affiliate, in recognition of its own unique combination of staff, facilities, and experience, will be responsible for employing business processes and procedures necessary to ensure the efficient and effective administration of the MCC Grant.

2.1.2. The cost principles of this Policy must be applied to those costs incurred by a Government Affiliate for which funding under an MCC Grant is requested, unless the MCC Grant Agreement provides

otherwise.

2.1.3. The application of alternative procedures, processes, rules, and/or regulations of the Government Affiliate for MCC Grant funded costs may be permissible, provided that such is not prohibited under U.S. law. The use of such alternative procedures, processes, rules, and/or regulations is subject to mutual agreement, in writing, between the Recipient Country and MCC. Absent such an agreement among the parties, the cost principles and procedures contained in this policy document will prevail.

2.1.4. Each Supplemental Agreement entered into in furtherance of an MCC Grant must contain explicit terms regarding the treatment of costs.

- a. The cost principles in this Policy may be used by specific incorporation in the Supplemental Agreement, by incorporation by reference of this Policy or only the relevant sections hereof.
- b. MCC may develop additional cost principles for an MCC Grant that includes unusual cost elements. Such additional principles will be included in the appropriate Supplemental Agreement, and will govern the unusual cost elements to the same extent as if the additional cost principles were set forth in this Policy. However, those additional cost principles will only apply to the specific Supplemental Agreement.
- c. In all cases, the specific provisions of the MCC Grant Agreement will prevail in the event of a conflict between such MCC Grant Agreement on the one hand, and this Policy on the other hand.

2.1.5. The failure in this Policy to address a particular cost does not imply that the cost is either allowable or unallowable. Rather, the allowability of the cost should be based on the principles and standards set forth in Section 5.1 of this Policy.

2.2. Audit of the Government Affiliate

Pursuant to MCC's "Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities," audits of a Government Affiliate are planned and budgeted for in the MCC Grant. An auditor is selected by the Accountable Entity in accordance with the MCC Grant Agreement. The scopes of the audits are defined in the "Statement of Work for Financial Audits of Accountable Entities" and "Statement of Work for Financial Audits of Covered Providers." These documents may be posted and updated from time to time on the MCC website.

3. Authorities

3.1. Acts

- a. Section 609(b)(1)(G) of the Millennium Challenge Act of 2003, as amended

3.2. Federal Government Regulations, Standards, and Other Guidance

- a. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 78 Fed. Reg. 78590 (Dec. 26, 2013) (to be codified at 2 C.F.R. Chapter 1, and Chapter II, pts. 200, 215, 220, 225, and 230).

3.3. Related MCC Policies and Procedures

- a. Program Procurement Guidelines
- b. Guidelines for Accountable Entities and Implementation Structures
- c. Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities
- d. Guidelines for Country Contributions
- e. Program Closure Guidelines

4. Key Definitions

609(g) Grant

The form of MCC Grant as defined in clause 2 of the definition for MCC Grant as provided below.

Accountable Entity

The entity designated by the Recipient Country Government and approved by MCC to carry out the Recipient Country Government responsibilities and obligations under the MCC Grant. For purposes of a 609(g) Grant, the Accountable Entity may be a team of individuals designated by the Recipient Country Government.

Fiscal Agent

An entity, for purposes of this policy, a Government Affiliate appointed by the Accountable Entity to be responsible for funds control and documentation, proper and consistent accounting, financial reporting and disbursements. These cost principles do not apply to costs incurred by fiscal agents that are not Government Affiliates.

Government Affiliate

Any ministry, agency, state-owned, -managed, or -governed enterprise or government designated entity appointed by the Recipient Country Government to carry out certain Recipient Country Government responsibilities and obligations under the MCC Grant. For purposes of this Policy, the Accountable Entity is a Government Affiliate.

Governing Document

The charter, decree, agreement, bylaws, articles of incorporation, governance agreement, program implementation agreement or other documents evidencing the formation, establishment or governance of the Accountable Entity in accordance with the terms of the MCC Grant.

Implementing Entity

A Government Affiliate responsible for managing the implementation of an element of the program financed by an MCC Grant and for initiating corresponding payment requests. These cost principles do not apply to costs incurred by implementing entities that are not Government

Affiliates.

MCC Grant

Assistance furnished by MCC to a Recipient Country under any of:

1. a compact entered into under the authority of Section 605 of the Millennium Challenge Act of 2003, as amended (the “Act”), or
2. a grant entered into by MCC and the Recipient Country under the authority Section 609(g) of the Act, or
3. a grant issued under the authority of Section 616(a) of the Act, if the relevant grant agreement stipulates that such assistance is governed by these Cost Principles.

MCC Grant Agreement

Any of: (a) a compact between MCC and the Recipient Country and any Supplemental Agreement; (b) an agreement between MCC and the Recipient Country for the use of 609(g) Grant; or (c) if applicable by its terms, an agreement between MCC and the Recipient Country governing the use of a grant issued under the authority of section 616(a) of the Act.

Procurement Agent

For purposes of this policy, means a Government Affiliate appointed by the Accountable Entity to be responsible for impartially administering and/or certifying the procurement process in accordance with a defined set of procurement standards. These cost principles do not apply to costs incurred by procurement agents that are not Government Affiliates.

Program

Any project or activity that is the purpose for which funding is provided under an MCC Grant.

Program Guidelines

Collectively, the Audit Guidelines, the MCC Environmental Guidelines, the MCC Gender Policy, the Governance Guidelines, Guidelines for Country Contributions, the MCC Program Procurement Guidelines, the Reporting Guidelines, the MCC M&E Policy, the MCC Cost Principles for Government Affiliates Involved in Compact Implementation, the MCC Program Closure Guidelines (including any successor to any of the foregoing) and any other guidelines, policies or guidance papers relating to the administration of MCC-funded compact programs and as from time to time published on the MCC Website.

Recipient Country

The country receiving assistance under an MCC Grant.

Recipient Country Government

The government of the Recipient Country.

Rescoping

A change in cost or a change in scope of an MCC Grant.

Supplemental Agreement

An agreement or other document entered into in connection with an MCC Grant, which sets forth additional terms related to the administration and implementation of the MCC Grant. It includes, but is not limited to, the Governing Documents, each implementing entity agreement, fiscal agent agreement, procurement agent agreement, procurement agreement and fiscal accountability plan.

Transaction Team

Refers to any member or lead of a team to develop or implement an MCC Grant.

Unallowable Cost

Any cost that is not compliant or consistent with these cost principles.

5. Policies

5.1. Allowability of Costs

MCC Grant funding may be disbursed for a cost that is determined to be allowable, pursuant to the following:

- a. A cost is allowable if it (i) is necessary for MCC Grant administration, implementation, monitoring and evaluation, or oversight, (ii) meets the criteria listed in section 5.1(b) below, and (iii) is not defined as “unallowable” in this Policy. An allowable cost is usually classified as a direct cost, but may include properly documented indirect costs if the use of indirect costs is the practice of the Government Affiliate.
- b. Costs, to be allowable, must meet all of the following criteria:
 - 1. Be allocable (as set forth in Section 5.1.1);
 - 2. Be reasonable (as set forth in Section 5.1.2);
 - 3. Be accounted for in a manner that is consistent with accepted international accounting standards or, if approved by MCC, the generally accepted accounting standards of the Recipient Country;
 - 4. Be incurred within the MCC Grant period, or as may be otherwise provided in the MCC Grant Agreement;
 - 5. Be documented; and
 - 6. Not be excluded as an unallowable cost under Section 5.3.1.
- c. Any income or credits (e.g., discounts, rebates, refunds, rental income) must be applied in determining the total allowable cost under the MCC Grant.

5.1.1. Allocability

To be allocable, a cost must meet one of the following criteria:

- a. Be incurred for goods, work or services directly related to an MCC Grant and in connection with the administration and implementation of the MCC Grant,
- b. Benefit the MCC Grant and be applied in reasonable proportion to the benefits received if the cost benefits both the MCC Grant and other activities of the Government Affiliate; or
- c. In rare circumstances, a cost may be necessary to the overall operation of the Government Affiliate, although a direct relationship to any particular cost element cannot be shown. In such cases, there must be evidence of at least an indirect benefit to the MCC Grant.

5.1.2. Reasonableness

The reasonableness of a cost depends upon a variety of considerations and circumstances, and determining reasonableness requires the application of sound administrative and professional judgment.

In determining the reasonableness of a given cost, consideration should be given to whether:

- a. The cost is of a type or amount generally recognized as ordinary and necessary expense for the conduct of the Government Affiliate's business and the performance of the MCC Grant;
- b. There are constraints or requirements imposed by such factors as generally accepted sound business and labor practices, arm's length bargaining, governmental laws and regulations, and the terms of the MCC Grant;
- c. The cost incurred is one that prudent individuals would incur in the circumstances, considering their responsibilities to their government and the public-at-large; and
- d. The cost is consistent with the established policies, practices, and/or laws of the Recipient Country Government, not provided for or justified by the MCC Grant, which may cause a significant increase in costs.

5.1.3. Accounts and Records

The Government Affiliate must maintain accounts and records adequate to demonstrate the allowability and allocability, including the nature, amount, timing, relevance, and derivation, of costs charged to the Grant. The Government Affiliate's accounting system must be accurate, and permit an appropriate and equitable allocation of costs for which funding is available under an MCC Grant.

The recording, allocation and reporting of costs related to MCC Grant activities should be based on a methodology that is:

- a. Able to be applied consistently,
- b. Able to apply costs proportionally,
- c. Able to identify and segregate sources of funds (609(g), CIF and compact),
- d. Able to match costs to the appropriate source of funds, and
- e. Able to provide an audit trail.

5.1.4. Limitations and Understandings of the Cost Principles

Regardless of the allowability, allocability and reasonableness of costs, neither may funding be committed nor expense incurred in excess of the funding available under an MCC Grant. A Government Affiliate must ensure that its expenses do not exceed the funding obligated for its activities in furtherance of the Program.

MCC maintains the right to request a refund for any cost paid by the Government Affiliate with MCC Grant funding that does not meet the requirements of this Policy.

Questions of reasonableness must be resolved to MCC's satisfaction.

5.2. Cost Analysis

Cost analysis is an essential decision-support tool, particularly useful in negotiating or rescoping an MCC Grant. It provides MCC with a means of evaluating the Recipient Country's estimate regarding the costs related to the Government Affiliate's function. Cost analysis provides MCC and the Government Affiliate information to ensure that proposed costs are adequate, reasonable, valid and properly documented. The general technique of cost analysis is outlined below.

5.2.1. The Estimate

In preparing the pre-award documentation for the MCC Grant, or in the case of rescoping, MCC will work with the Recipient Country to prepare a reasonable estimate of the costs that will be incurred in managing the MCC Grant, including the operating costs of the Accountable Entity, Implementing Entity(ies), Procurement Agent, and Fiscal Agent. This estimate should be systematically developed, using a number of inputs, such as, but not limited to: historical and/or statistical data analysis, published indices, prior Recipient Country experience, and any other information that will produce a reasonable estimate.

5.3. Selected Items of Cost

This Section sets forth selected costs which are representative of the costs typically encountered by Government Affiliates. Failure to identify any cost in this section does not mean that the cost is either allowable or unallowable. Whether or not a particular cost is specifically addressed in this document the determination of its allowability, allocability and reasonableness must be based on the principles and standards set forth in Section 5.1 of this Policy.

5.3.1. Allowability of Specific Costs

The following principles provide more specific guidance on certain costs. Unallowable costs are unallowable as either direct or indirect costs under an MCC Grant. All allowable costs must be directly associated with the administration and implementation of the MCC Grant.

a. Advertising and Public Relations and Outreach

1. Advertising

Advertising costs are the costs of advertising in magazines, newspapers, radio and television, exhibits, electronic communications and other media, but do not include earned media (also known as free press) that is brokered through traditional press offices and public affairs liaison efforts (see subsection 5.1.3(a)(3) below for provisions on press costs). Advertising costs relating to the Program are allowable at a cost that is usual and customary for the locality, so long as the advertisements are clearly labeled as advertisements, and the costs are associated with an overall communication strategy as approved by MCC.

Examples of allowable advertising costs include, but are not limited to, advertising costs incurred for: (i) the recruitment of personnel required for the Government Affiliate to perform its obligations under the MCC Grant; (ii) the procurement of goods, works or services for performance of the MCC Grant; (iii) the disposal of surplus materials/assets acquired in the performance of the MCC Grant; or (iv) program specific requirements of the MCC Grant. The costs of advertising for any purpose not related to the MCC Grant are not allowable.

1. Public Relations and Outreach

Public Relations and Outreach means those activities dedicated to promoting or maintaining understanding and favorable relations with the community or public at large or any segment of the public, as well as maintaining a positive image of the Program. It is limited to communication activities to keep the public informed on matters relating to the MCC Grant, and at least 50% of the participants in the event must be from outside the recipient country's Government and the Accountable Entity.

Examples:

The cost of communicating with the public or and press about specific activities or accomplishments which result from performance of the MCC Grant are allowable.

The costs of logistical arrangements, such as rental of tents or facilities for the public outreach event are allowable.

The costs of items for distribution at public outreach events that promote the Accountable Entity or MCC (e.g., light refreshments, pens, hats, and t-shirts marked with the Accountable Entity's logo) are allowable when they are:

- i. Of no material monetary or commercial resale value;

- ii. Directly related to communicating the purposes, successes or outcomes of the MCC Grant; and
- iii. Associated with an overall communication strategy that has been approved by MCC.

Further information on conferences and meetings associated with Public Relations and Outreach is contained in Section 5.3.1(g) on Conferences, Meetings, and Ceremonial Events.

1. Media and Free Press

Compensation to members of the press through any type of payment or bonus for services, extensive per-diem, honorariums, lodging, or the cost of airfare is strictly prohibited. However, the cost of conducting general liaison with news media to the extent that such activities are limited to communicating to keep the public informed on matters relating to the MCC Grant are allowable. For example, fuel costs for busing a group of reporters to an MCC Grant-funded project site is allowable when reporters are otherwise unable to get to the project location, and reasonable funding for meals or refreshments when directly related to such events is allowable.

Such general liaison must not be discriminatory, but open to all media and press personnel, except for cases (to be determined by the Accountable Entity's press office) where an exclusive coverage arrangement is warranted and followed-up by general press availability in the medium-term. All media and free press costs must be associated with an overall communication strategy.

a. Alcoholic Beverages

Costs of alcoholic beverages are always unallowable.

a. Audits

The costs of audits required by, and performed in accordance with, MCC Grant requirements are allowable. The costs of any other audits required or approved by MCC are allowable. For purposes of this subsection (b), "audit" includes (but is not limited to) financial audits, technical audits, program evaluations, performance audits, compliance audits, data quality reviews, and environmental audits.

a. Bad Debts

1. Debts owed to the Accountable Entity:
 - i. Collection costs (including legal costs) incurred by the Government Affiliate to collect amounts owed to it or the Accountable Entity related to Programs funded under an MCC Grant are allowable.
 - ii. Any debt resulting from borrower default under credit programs (including on-lending facilities and guarantee facilities) funded under an MCC Grant is not governed by these Cost Principles.
2. Debts owed by the Accountable Entity:
 - i. The allowability of the Accountable Entity's debts which arise from its normal course of business is subject to the underlying agreement or legal obligation of each debt.

a. Bonding

Bonding costs arise when the Recipient Country requires assurance against financial loss to itself or others by reason of the act or default of an employee or consultant, such as fidelity bonds. Costs of bonding required pursuant to the terms of the MCC Grant Agreement, or as otherwise approved by MCC, are allowable.

a. Communications

Costs incurred for telephone services (mobile and land lines), local and long distance telephone calls, internet connections, telegrams, courier service, postage and the like, are allowable, if used in furtherance of the MCC Grant.

a. Compensation—Boards and Employees

- 1.

Board Compensation

Remuneration to members of the Accountable Entity's governing body (e.g., board of directors or advisory council) who are employees or officials of the Accountable Entity or Recipient Country Government is unallowable. However such government members may be reimbursed for reasonable incidental expenses arising from their attendance at regular or special meetings (e.g., transportation or per-diem expenses). Remuneration is allowable with MCC or Recipient Country Government funds to voting

members who are not employees or officials of the Accountable Entity or Recipient Country Government for actual services rendered as members of the governing body. Remuneration must be calculated on a daily basis and must not exceed the highest daily rate of salary and benefits that a Recipient Country Government minister would receive. MCC reserves the right to review the level of remuneration to be paid to non-Government members of the governing body. Please refer to “MCC Guidelines for Accountable Entities and Implementation Structures” for further guidance on remuneration of the Accountable Entity’s governing body. In the event of an inconsistency between these cost principles and the MCC Guidelines for Accountable Entities and Implementation Structures, these cost principles will prevail.

1.

Employee Compensation

- i. Employee compensation is all compensation paid by the Government Affiliate for employee services (including the services of temporary employees). Compensation includes, but is not limited to, salaries, benefits (such as pensions, health coverage, disability pay, unemployment compensation and severance pay), holidays and leave, transportation or food allowances (in cash or in kind), 13th month payments (as defined in paragraph 2(vii) below), performance based awards, and retention incentives. This subsection 5.3.1(f)(2) applies to employee compensation regardless of whether such employee’s compensation is funded in whole or in part under an MCC Grant. Compensation for staff positions within the Accountable Entity must be supported by a formal salary survey or another methodology approved in writing by MCC. The Accountable Entity must request and receive a written waiver from MCC for proposed salaries that exceed the salary survey or other salary-setting methodology approved by MCC.
- ii. Government Affiliates that are existing units or departments within the Recipient Country Government must pay employees in accordance with the compensation level paid to Recipient Country Government employees of comparable rank and function, pursuant to the established Recipient Country laws, regulations and policies. MCC Grant funding may not be used to fund staff positions that were funded through Recipient Country Government appropriations prior to the MCC Grant. MCC Grant funding may be used only to compensate the additional staff needed to complete the MCC Grant Program.
- iii. The MCC Grant or a Supplemental Agreement could also require the establishment of a new unit or department within the Recipient Country Government structure with special rights or a new Government Affiliate outside the existing government structure. In

those cases, the Government Affiliate should pay employees at compensation levels comparable to those earned by employees performing similar work in the labor market for which the Government Affiliate is competing for that kind of employee.

- iv. Performance based award (“award”) payments to current, full time employees of the Accountable Entity are allowable only after the compact has entered into force (EIF). Eligible employees of the Accountable Entity must have been employed for a minimum of six months at the time of the award. Awards must be based on measurable performance goals and documented supervisor appraisals of the employee’s performance and are made under an established, written and MCC-approved organizational compensation policy.
- v. Extra compensation paid by the Recipient Country Government, or any other entity, above the salary and benefit amount established by MCC and the Government Affiliate is prohibited unless MCC agrees otherwise in writing. This means the employee is not allowed to accept extra compensation from the Recipient Country Government in any form, including without limitation, money, vehicles, household staff, laundry services, staff support, and free housing.
- vi. Special payments made to employees, such as signing bonuses, severance payouts, retention payments, etc. are allowable only with the prior written approval of MCC.
- vii. Payments mandated by local laws of the Recipient Country or established as widespread local custom and practice are allowed in the determination of compensation levels. An example of this type of payment would be a “13th month” payment where an additional payment is made to an employee based on the employee’s average monthly salary. Unless established by law, the basis for these types of payments should be the employee’s salary, not the employee’s total compensation (as defined in subsection 5.3.1(f)(2)(i) above). These payments must be documented in the applicable Fiscal Accountability Plan, employee handbook or similar types of documents prior to payment.
- viii. Employee compensation may include overtime as required under local law, which may result in an additional or increased payment for hourly employees. Employees that receive a salary paid from an MCC Grant must commit in writing their understanding that the salary includes any remuneration that may be due for overtime or related compensation, unless otherwise established under local law that the right to overtime does not extend to salaried employees. In no case will funding under an MCC Grant be available for overtime for salaried employees, absent MCC’s written approval and a writing entered into between the employee and his or her Government Affiliate employer regarding such.
- ix. In all cases, employee salary payments must be supported by timesheets signed by the employee and his/her supervisor or another method acceptable to MCC that documents each employee’s time and attendance (e.g., sign in/sign out log sheets). Timesheets must

provide an accurate recording of an employee's time and attendance.

a. Conferences, Meetings & Ceremonial Events

1.

Conferences

- i. **Hosting**—Costs associated with conferences to facilitate implementation of the Grant that are primarily for direct Program stakeholders (such as beneficiaries, or NGOs) that are not employees of the Government Affiliate are allowable. Allowable costs include the cost of meals, transportation, facility rental, speakers' fees (except for persons speaking in their official capacity on behalf of the Recipient Country Government or the Government Affiliate), and other items incidental to such conferences.
 - A. An appropriate representative of the Accountable Entity management (e.g., Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Project Director, etc.) must attend all Accountable Entity sponsored conferences.
 - B. **Participant Support Costs** – Participant support costs are direct costs for items such as stipends, subsistence allowances or travel allowances in connection with meetings, conferences, symposia, or training projects. These costs are allowable with the prior written approval of MCC.
 - C. The Accountable Entity must keep a record of the names and organizational affiliation of all attendees at each conference.
- ii. **Attending**—Costs associated with conferences that are primarily for direct Program stakeholders (e.g., beneficiaries, NGOs) that are not employees of the Government Affiliate are allowable. Costs of attendance at professional meetings or conferences on a topic related to the Grant are also allowable. Allowable costs include the cost of meals, transportation, facility rental, speakers' fees (except for persons speaking in their official capacity on behalf of the Recipient Country Government or the Government Affiliate), and other items incidental to such conferences.
 - A. Costs for attending conferences are allowable with the prior written approval of MCC for a reasonable number of Government Affiliate attendees.
 - B. The conference must be directly related to the furtherance of the MCC Grant-funded program(s) and the employee's job function in the Government Affiliate. For example, a conference on sustainable farming practices should be attended by a Government Affiliate employee who is responsible for implementing sustainable farming practices through the MCC Grant.
 - C. **Participant Support Costs** – Participant support costs are direct costs for items such as stipends, subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees in

connection with meetings, conferences, symposia, or training projects. These costs are allowable with the prior written approval of MCC.

2.

Meetings

Costs of holding official, Program-related meetings are allowable if more than 50% of the participants are non-Government Affiliate employees or officials. Reasonable breakfast, lunch, or dinner expenses to establish or maintain relationships of value for furtherance of the MCC Grant are allowable only when hosted by an authorized, senior staff member of the Accountable Entity. The number of meetings and participants should be reasonable and cost-effective and aligned with the business objective. This standard requires that records be maintained which include the names, titles and affiliations of all participants, and the specific purpose of each meeting.

3.

Official and Ceremonial Events

The costs for official and ceremonial events are allowable when hosted by the CEO/Director General of the Accountable Entity and are meant to foster relations or promote the accomplishments of the Accountable Entity's mission to external entities. Examples of official or ceremonial events include hosting rare visits of noted personages or groundbreaking ceremonies for a new project. Costs of thematic events such as commemorating International Women's Day to highlight what a Program of the MCC Grant is doing to promote gender equality are also allowable. The costs for serving light refreshments and inviting stakeholders, beneficiaries, and donor community is allowed.

Costs of amusement, diversion, social activities and related incidental costs for an official or ceremonial event (e.g., meals, lodging, rentals, transportation and gratuities) are not allowable.

a. Contributions and Donations

Contributions and donations to outside organizations are unallowable, unless explicitly authorized in the MCC Grant Agreements, such as Compact Closure Plans approved and authorized by MCC.

a. Dispute Resolution Proceedings

Dispute Resolution Proceedings (DRP) are those proceedings related to bringing or defending an arbitral, judicial, administrative or other legal proceeding that results in a binding judgment. DRP costs typically include administrative and clerical fees, travel expenses to the site of proceedings, and costs of legal representation and other experts hired to assist with the proceedings. Except as provided below, DRP Costs are generally allowable if the costs are reasonable, payment of the costs is not restricted by any provision of the MCC Grant, and, in the case of arbitration costs, the applicable contract includes a provision for the payment of such costs (or if the parties otherwise agree to binding and final dispute resolution proceeding). Awards, fines and penalties resulting from a DRP are subject to subsection 5.3.1(j) below of these cost principles.

DRP costs are not allowable:

1. In criminal matters, if a binding judgment (including a conviction entered upon a plea) is entered against the Government Affiliate:
 - i. for failure to comply with a law or regulation;
 - ii. for fraud or similar misconduct; or
 - iii. imposing monetary damages or penalties on the Government Affiliate.
2. In civil or administrative matters (including arbitration), if a binding judgment (including resolution by consent or settlement) is entered against the Government Affiliate:
 - i. for failure to comply with a law or regulation (including when the failure triggers a cross-default clause in a commercial agreement);
 - ii. for fraud or similar misconduct; or
 - iii. imposing monetary damages or penalties on the Government Affiliate.

DRP costs made unallowable by this subsection may be allowed if MCC determines that the costs were incurred as a result of a specific term or condition of the MCC Grant or specific written direction of an authorized official of MCC.

a. Fines and Penalties; Awards

1. Cost of fines and penalties from violations of, or failure of the Government Affiliate to comply with, applicable laws and regulations are unallowable.
2. Penalties for late payments owed to contractors providing goods, works or services under the MCC Grant are allowable if the contract with such contractor includes a provision for such late payment penalties. However, repeated late payments, or payments, fines or penalties resulting from gross mismanagement (as determined by MCC), are not allowable. If the Fiscal Agent is not a Government Affiliate, and the late payment is caused by the action (or inaction) of the Fiscal Agent in violation of the Fiscal Agent Agreement, the late payment penalty shall be paid from the fees owed to the Fiscal Agent under the Fiscal Agent Agreement and is not otherwise an allowable cost under the MCC Grant.

3. Penalties arising from a Liquidated Damage, as specified in a contract, will be handled on a case-by-case basis with MCC. Funds awarded to the Accountable Entity as a result of a DRP (including damages and negotiated settlements) will be treated the same as MCC Grant funds, and will be returned to MCC if MCC so directs based on an augmentation analysis to protect against a prohibited increase in the MCC Grant.

a. Indirect Costs for Implementing Entities

1. The Accountable Entity's indirect costs, also referred to as an "overhead" and/or "general and administrative" expense, are those costs that have been incurred for common or joint objectives. After direct costs have been determined and assigned directly to specific work, indirect costs are those remaining to be allocated to benefiting work. They are gathered into one or more cost pools, after which they are allocated and reallocated, as appropriate, until they are ultimately charged to specific grants or other work of the Government Affiliate, usually on a percentage basis. A cost may not be allocated as an indirect cost if that same cost has been assigned as a direct cost. Typical examples of indirect costs for many organizations may include use allowances on building and equipment, the costs of operating and maintaining facilities, and general and administrative expenses, such as the salaries and expenses of executive officers, personnel administration and accounting.
2. All costs of the Government Affiliate should be charged as direct costs, rather than using both direct and indirect costs. However, if the Government Affiliate has an established indirect cost rate accepted by the Recipient Country Government and approved by MCC, this indirect cost rate may be used.

a. Insurance and Indemnification

1. Insurance includes insurance which the Government Affiliate is required to provide, or which is approved, under the terms of the MCC Grant and any other insurance which the Government Affiliate maintains in connection with the general conduct of its operations. Such costs are allowable as agreed by MCC and the Government Affiliate.
2. Any provisions for a reserve covering the risk of loss or damage to property belonging to the Government Affiliate or Recipient Country are not allowable unless specifically authorized in the MCC Grant Agreement and then, only to the extent that the Government Affiliate or Recipient Country is liable for such loss or damage.
3. Indemnification includes securing the Government Affiliate, its staff, and governing body members against liabilities to third persons and any other loss or damage, not compensated by insurance or otherwise. Indemnification costs are not allowable.

a. Interest, Loans and Bonds

1. Interest payable on borrowing and bond discounts are unallowable.
2. Principal and/or interest repaid to a Government Affiliate responsible for an MCC Grant-related on-lending program will be credited to MCC or designated for

specific purposes at the end of the MCC Grant term (or such other time as may be agreed) in accordance with the arrangements agreed to in writing between the Accountable Entity and MCC.

a. Lobbying

1. Costs associated with the following activities with respect to the U.S. Government or the Recipient Country Government and any political subdivisions thereof are unallowable:
 - i. Attempts to influence the outcomes of any election, referendum, initiative, or similar procedure, through in-kind or cash contributions, endorsements, publicity, or similar activities;
 - ii. Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;
 - iii. Any attempt to influence (i) the introduction of legislation, or (ii) the enactment or modification of any pending legislation through communication with any member or employee of a legislature (including efforts to influence officials to engage in similar lobbying activity), or with any government official or employee in connection with a decision to sign or veto enrolled legislation;
 - iv. Any attempt to influence (i) the introduction of legislation, or (ii) the enactment or modification of any pending legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fund raising drive, lobbying campaign or letter writing or telephone campaign;
 - v. Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable activities; or
 - vi. Attempts to improperly influence, either directly or indirectly, an employee or officer of the US Government or the Recipient Country Government to give consideration to or act regarding a regulatory or contract matter.

1. However, the costs of the following activities are allowable:
 - i. Providing a technical and factual presentation of information on a topic directly related to a MCC Grant through hearing testimony, statements or letters to a legislature, or subdivision, member, or cognizant staff member thereof, in response to a documented request (including a request for testimony or statements for the record at a regularly scheduled hearing) made by a legislative body or subdivision, or a member or cognizant staff member thereof;

provided such information is readily obtainable and can be readily put in deliverable form; and further provided that costs under this subsection 5.3.1(n)(2)(i) for transportation, lodging or meals are unallowable unless incurred for the purpose of offering testimony at a regularly scheduled legislative hearing pursuant to a written request for such presentation.

- ii. Any lobbying made unallowable by subsection 5.3.1(n)(1)(iii) above to influence national, state or local legislation (i) in order to directly reduce MCC Grant costs, or (ii) to avoid material impairment of a Government Affiliate's authority to perform its responsibilities, or (iii) where such lobbying is related to policy reform in support of, related to, or required by, the purposes of the MCC Grant.

a. Materials, Equipment and Supplies

Costs incurred for materials, equipment and supplies necessary to carry out the MCC Grant are allowable. The reasonable cost of such items must be established in accordance with the procurement procedures and process established in MCC's Program Procurement Guidelines or such other procurement rules approved by MCC and in use by the Accountable Entity.

a. Office Space

The reasonable costs of leasing office space are allowable. The cost of purchasing real property for office space is unallowable.

a. Organization Costs

Expenditures in connection with planning or executing the organization or reorganization in the structure of a Government Affiliate or meeting legal and regulatory requirements for the Government Affiliate are allowable to the extent that they are necessary and appropriate to such purposes and related to the MCC Grant. Such expenditures include, but are not limited to, incorporation fees, licenses and cost of attorneys, accountants, and/or management consultants.

a. Personal Use of Assets Acquired with MCC Grant Funds

Assets acquired with MCC Grant funds must be used only in furtherance of MCC Grant objectives and must not be used for the personal benefit (other than for incidental use) of an employee or consultant unless the Government Affiliate has an established and published procedure approved by MCC for reimbursement for personal use.

Such assets would include, but not be limited to:

- Communications devices (mobile phones, pagers, etc.)
- Computers
- Copiers, fax machines, etc.

a. Pre-award Costs

Pre-award costs are those incurred prior to the effective date of the MCC Grant, where such costs are necessary to implement the grant or comply with the grant provisions. Such costs are allowable only to the extent that they would have been allowable if incurred after the effective date of the MCC Grant and only with the written approval of MCC or if specifically authorized in the MCC Grant.

a. Professional Services

Costs of professional and consultant services (such as lawyers or accountants), whether short-term or long-term, rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the Government Affiliate, are allowable if (1) such services are obtained in accordance with the procurement procedures and process established in MCC's Program Procurement Guidelines or such other procurement rules approved by MCC, and (2) the costs are normal, customary and reasonable (as established through the procurement process).

a. Publication and Printing

Publication costs are allowable when directly related to specific projects within the Program or are associated with the communication strategy of the Accountable Entity. Publication costs include costs of composition, plate-making, press work, binding, and the final products for distribution, promotion, mailing, and general handling, as examples.

a. Recruitment

The following recruiting costs are allowable: cost of “help wanted” advertising; travel costs, including food and lodging, of applicants invited to interview for employment with the Government Affiliate; and relocation costs incurred incidental to hiring new employees. If the Government Affiliate engages employment agencies to recruit staff any costs in excess of standard commercial rates for such services are unallowable.

a. Taxes

Payments by the Government Affiliate for taxes on goods, works or services funded with MCC Grant funds are not allowable, consistent with MCC’s Tax Policy on MCC Assistance and the MCC Grant Agreement.

a. Technical Evaluation Panels

A technical evaluation panel is often used to evaluate expressions of interest or proposals submitted by prospective vendors. Compensation to an employee of the Accountable Entity or Recipient Country Government for service as a member of a technical evaluation panel is not allowable. Reasonable compensation to other individuals who are not employees of the Accountable Entity or Recipient Country Government for service as a member of a technical evaluation panel is allowable.

The Accountable Entity may provide members of a technical evaluation panel a maximum of one working meal per day. A working meal is only allowable if participants are engaged in activities during the normal meal time (as stated on an agenda) and in which no other opportunity for a meal is provided. Only a nominal amount of MCC Grant funds may be used per staff/participant for working meals.

If the technical evaluation is held in an off-site location, Accountable Entity or Recipient Country Government employees may be reimbursed for their transportation and/or per diem expenses directly related to their participation as a panel member. Other individuals (non-Accountable Entity or Recipient Country Government employees), if not otherwise compensated for their services, may receive reasonable meals expenditures.

a. Training

The costs of training in furtherance of the MCC Grant (including implementation of Supplemental Agreements) are allowable based on the principles and standards set forth in Section 5.1 of this Policy.

The allowability of training related travel costs is addressed in Paragraph 5.3.1(aa).

a. Travel and Transportation

Travel costs are the expenses for transportation, lodging, subsistence and related items incurred by the governing body of the Accountable Entity or employees of any Government Affiliate who are in travel status on official business related to the MCC Grant. Such travel expenses are allowable as provided in this section. Other individuals' travel costs may be allowed when specifically allowed for in a Supplemental Agreement, such as an Implementing Entity Agreement.

1.

Lodging and per diem

- i. Lodging expenses are reimbursable for actual expenses incurred up to the limits set forth, at MCC's option, (i) by applicable Recipient Country Government laws or regulations, (ii) by the international per diem rates established by the United States Department of State (www.state.gov), or (iii) by written agreement between MCC and the Government Affiliate. Lodging expenses for travel in the continental United States will be reimbursed according to the U.S. Government Federal Travel Regulations promulgated by the U.S. General Services Administration (www.gsa.gov).
- ii. Per diem rates cover the cost of meals and some incidental expenses for each day of travel at a fixed rate. The rates are determined, at MCC's option, (i) based on applicable Recipient Country Government laws or regulations, (ii) as posted on the United States Department of State (www.state.gov), or (iii) in writing between MCC and the Government Affiliate. Per diem rates for travel in the continental United States will be reimbursed according to the U.S. Government Federal Travel Regulations promulgated by the U.S. General Services Administration (www.gsa.gov).

Incidental expenses include costs for laundry, cleaning and tips for services. Incidental expenses do not cover expenses such as renting a conference room or making a phone call for strictly business purposes (these costs may be expensed separately to the Government Affiliate).

On the day of departure on temporary travel per diem is allowable at the rate of 75 percent of the M&IE (Meals and Incidental Expenses) rate applicable at the temporary travel destination. On the day of departure for home base, per diem is allowable at the rate of 75 percent of the M&IE rate applicable to the permanent work site.

2.

Air Travel

- i. Economy class airfare is the encouraged method of air travel.
- ii. Business class airfare is allowable only with prior written approval from the Accountable Entity's senior management and MCC.
- iii. Economy class airfare combined with a rest stop is considered a viable, cost-effective alternative to business class airfare.
- iv. Under no circumstances can travel include both business class airfare and a rest period en route

6. Responsibilities

6.1. Fiscal Accountability

Fiscal Accountability is responsible for the review and interpretation of this Policy, with input from relevant Transaction Team members.